Consensus - Building on the Financial Sector Strategic Plan

Work Shop at Elmina Hotel

June 13-14, 2003

June 2003

Sigma One Corporation

Report on the Consensus - Building on the Financial Sector Strategic Plan

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3.11(Y5) Quarterly meetings of the Financial Sector Working Group

June 2003 **Sigma One Corporation**

REPORT ON CONSENSUS- BUILDING WORKSHOP ON FINANCIAL SECTOR STRATEGIC PLAN

HELD AT ELMINA MOTEL

JUNE 13-14, 2003

RAPPORTEURING TEAM

Rapporteur-General:	Sammy Osei-Bonsu, Office of the Senior Minister
Rapporteurs:	Ebenezer Barnes, SEM International Associates Limited
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BACKGROUND

The Financial Sector Strategic Plan ("FINSSP") was initially prepared in 2000 by the Financial Sector Consultative Committee (FSCC), a committee established by the Bank of Ghana as part of the Trade and Investment Reform Program (TIRP). TIRP has, as a primary objective, the promotion of participatory policy change that addresses key issues regarding macroeconomic, trade and investment policies, and the streamlining of the regulatory process to facilitate rapid growth in the economy. The strategic plan was prepared after extensive consultation with regulatory agencies, financial institutions and other stakeholders of the financial system. The Inter-Ministerial Committee on Competitiveness (IMCC)[1], which was constituted to oversee TIRP approved the Plan in 2000.

Implementation of the 2000 Plan was, however delayed because of the transition to a new administration in 2001. In July 2002, the Minister of Finance formally announced the readiness of the government to proceed with the implementation of FINSSP. The current version of FINSSP was produced in December 2002 by a team of technical experts and reflects modifications to the original FINSSP to reflect the implications of new developments since 2000. FINSSP will eventually be submitted for cabinet approval.

OBJECTIVES OF THE WORKSHOP

The goal of the workshop was to subject FINSSP to scrutiny by important stakeholders in the financial sector before final submission to the Minister of Finance and Cabinet for approval. The specific objectives of the workshop were to provide an opportunity for industry stakeholders and experts to review and critique the strategic plan and to forge national consensus and ownership.

The workshop was held at Elmina Motel during July 13-14, 2003 as a follow-up to an earlier FINSSP workshop held at Agona Swedru during April 3-5, 2003. The agenda for the workshop is attached is attached as Attachment 1.

Emphasis during the workshop was on six small group sessions to discuss the following components of FINSSP.

- Banking
- Insurance
- Securities
- Micro finance
- Nonbank Financial Institutions/Housing Finance
- Development Finance

Rapporteurs' reports on the workshop sessions are attached (Attachment 2)

[1] The Inter-Ministerial Committee on Competitiveness (IMCC) was chaired by the Minister of Finance. Other members of IMCC were the Bank of Ghana, Ministry of Trade and Industry, Ministry of Food and Agriculture, National Development Planning Commission and the Private Enterprise Foundation.

ATTACHMENT I: WORKSHOP AGENDA

SECOND NATIONAL WORKSHOP ON FINANCIAL SECTOR STRATEGIC PLAN (FINSSP)

12TH –15TH JUNE 2003

VENUE: ELMINA HOTEL, CAPE COAST

DAY	TIME	ITEM
Thursday June 12	PM	Arrival of Participants
DAY 1 (Friday June 13)		Registration
	9:20	Formal Opening: ❖ Introductory Remarks (Eddie Safo-Kwakye, Coordinator, FINSSP)
	9:30	❖ Chairman's Opening Remarks (Dr. Akoto Osei, Dep. Min.)
	9:35	❖ Remarks by Minister of Finance and Economic Planning
	10:00	Short brief by Consultants
	10:30	Cocoa/Tea/Coffee Break
	11:00	Breakout Session 1 ❖ Banking ❖ Securities ❖ Insurance
	1:00	LUNCH
	2:15	❖ Plenary Session- Chairperson to present summaries of breakout sessions o **Banking** (15 minutes) Discussions (10 minutes) o **Securities** (15 minutes) Discussions (10 minutes) o **Insurance** (15 minutes) Discussions (10 minutes)
	3:30	Cocoa/Tea/Coffee Break
	4:00	Breakout Session 2 ❖ Microfinance ❖ Non-Bank Financial Institutions/Housing /Finance ❖ Development Finance

	6:00	❖ Plenary Session- Chairperson to present summaries of breakout sessions o Mi**crofinance** (20 minutes) Discussions (10 minutes) o **Nonbank Financial Institutions / Housing finance** (20 minutes) Discussions (10 minutes) o **Development Finance** (20 minutes) Discussions (10 minutes)
	7:15	**DAY 1 ENDS**
DAY	**TIME**	**ITEM**
DAY 2 (Saturday June 14)	9:00	Brief on other Topics- Consultants
	9:15	Breakout session 3- other topics: ❖ Corporate Governance – (Banking Group)
	10:25	Cocoa/Tea/Coffee Break
	10:55	Plenary Session 3- Chairman to present summaries of breakout sessions ❖ **Corporate Governance** (10 minutes) Discussion (10 minutes) ❖ **General Legal and Regulatory Framework** (10 minutes) Discussion (10 minutes) ❖ **Financial Innovation** (10 minutes) Discussion (10 minutes)
	11:55	Breakout Session 4- Other topics ❖ Financial Literacy and Public Awareness – (Microfinance Group) ❖ Training and Professional Development – (NBFI Group) ❖ Role of BoG and MoF – (Development Finance Group)
	1:00	LUNCH
	2:00	❖ Plenary Session 4 - Chairperson to present summaries of breakout sessions o **Financial Literacy** (10 minutes) Discussions (10 minutes) o **Trainig and Professional Development** (10 minutes) Discussions (10 minutes) o **Role of BoG and MoF** (10 minutes) Discussions (10 minutes)
	3:00	Cocoa/Tea/Coffee Break
	3:30	Breakout Session 5- Sequencing of Recommendations ❖ **Banking/Corporate Governance** ❖ **Securities/General Legal ad Regulatory Framework** ❖ **Insurance/Financial Innovation**
	4:25	❖ Plenary Session 5- Chairperson to present summaries of breakout sessions o **Banking/Corporate Governance** (10 minutes) Discussions (10 minutes) o **Securities/General Legal and Regulatory Framework** (10 minutes) Discussions (10 minutes) o **Insurance/financial Innovation** (10 minutes) Discussions (10 minutes)

	5:25	❖ Breakout Session 6- Sequencing of Recommendations o **Microfinance/Financial Literacy and Public Awareness** o **Non-bank Financial Institutions/Training and Professional Development** o **Development Finance/Role of BoG and MOFEP**

DAY	TIME	ITEM
DAY 2 (Saturday June 14)	6:00	❖ Breakout Session 6 – Sequencing of Recommendations o **Microfinance/financial Literacy and Public Awareness** (10 minutes) Discussions (10 minutes) o **Non-Bank Financial Institutions/Training and Professional Development** (10 minutes) Discussions (10 minutes) o **Development Finance/Role of BoG and MOFEP** (10 minutes) Discussions (10 minutes)
	7:00	Presentation of Implementation Framework (Eddie Safo Kwakye, Coordinator, FINSSP)
	8:00	Chairman Closing Remarks
	8:10	**DAY 2 ENDS**
DAY 3 (Sunday June 15)	From 8:30	Breakfast and Departure

ATTACHMENT II

RAPPORTEURS REPORTS

BACKGROUND

The Committee felt there was room for further deliberations on the recommendations to reflect the vision of FINSSP and especially to include the comments made by the Honourable Minister of Finance.

The comments made by the Honourable Minister included:

1) A thorough discussion of the "Universal Banking" being adopted by the Bank of Ghana – the committee felt this initiative would level the playing field for all the banks and increase competition by allowing the banks to segregate the market based on specialization. For example, minimum deposit requirements by banks can vary depending on each banks cost barrier, and afford depositors the choice of banks to do business with. However, this can only be achieved if coupled with full disclosure and wide publication of

   - Minimum deposit requirement barriers, with subsequent changes announced in advance.

   - Banking charges, interest rates and commissions through print and electronic media with wide circulation as per Recommendation 50.

   The Committee discussed briefly the possible future extension of the universal banking initiative into Bank Holding Companies, allowing the banks to operate at different levels of the financial market, via subsidiary vehicles, powered by incentives to motivate the holding companies to shift resources to otherwise less attractive markets, through for example, rural banking subsidiaries. No conclusive recommendation came out of this discussion.

2) On operational areas of banks that are a becoming disincentive to resource mobilization, it was felt that only effective approach is to allow:

   - A level playing field through the universal banking system allowing accounts to be shifted to the banks with least barriers to customers.

   - Full disclosure and publication as under Recommendation 50 and the new Recommendation 55

3) Regulations encouraging efficiency in the banking industry by requiring higher levels of capitalisation as well as shared technology for say software and hardware, cash cards ATMs, etc. The Committee felt that is covered by Recommendation 53 and by allowing the Savings & Loans to join the payment system to mop up the lower end of the deposit market.

4) On the issue of banks concentrating on yields curve strategies rather than banking- this was attributed to the need for the banks to generate profits with rising poor asset quality environment. However, it was agreed that poor asset quality emerged mostly from SMEs who either have:

   - Inadequate know-how on risk analysis and management capacity.
   - Weak balance sheets to withstand systematic volatility.
   - Outdated or inefficient operational management systems etc.

   To counter this, it was recommended that;

   i. Capacity building of SMEs, especially in financial management, systems management, risk management etc. should be undertaken by restructuring NBSSI into an SME Institute to provide said services and to network with technical assistance grant providers like EBAS, EMPRETEC, APDF etc. This was provided in Recommendation 49.

   ii. The need for a credit reference bureau to compile and disseminate credit information on borrowers and issuers of bad cheques will not only improve asset quality but also restore customer confidence in the banking sector , thus allowing for higher resource mobilization. This is set in Recommendation 52.

   iii. Also there was a need to institute within the emerging Code of Standard Banking Practice, as promoted by the Ghana Association of Bankers, a policy to kick out of the banking system customers who consistently issue bad cheques and withdraw their cheque books as per Recommendation 51.

5) On the issue relating to the need for supervisory and regulatory bodies to emphasise transparency, accountability, responsibility and compliance with the best international practice, it was felt this could be achieved by the enforcement of Recommendation 50 and the newly suggested Recommendation 55- Truth in Lending Practice which will enjoin the banks to publish and display charges, rates and commissions as well as minimum deposit requirements and for consumers to be given meaningful and consistent information about cost of credit, material terms of credit before loans are granted.

In summary, the committee felt that the keys to an effective banking system will include;

1) Level playing field through the universal banking system and allowing the Savings & Loans companies to join the payment system to mop up deposits from the lower end of the market.

2) A credit reference bureau have a database on users of bank services in order to improve on risk management information.

3) Full disclosure and publication of banking charges and rates in widely disseminated media.

4) Interbank co-operation in kicking out abusers of the industry, while reserving the right to prosecute under existing laws.

5) Interbank sharing of capital intensive technology common to the operations of the banks to encourage further development in electronic and card systems of payment and efficiency of the industry, thus reducing costs and attracting more depositors.

6) Encouraging further development of self regulation via the emerging Code of Standard Banking Practice but at the same time enabling the Bank of Ghana an oversight enforcement of the tenets of this code where it is not being adhered to or when they fall into laxity. Enforcement of Truth in Lending Practice of the Banking Industry by the Bank of Ghana will lead to the eventual elimination of the SME and individual borrower lack of confidence in bank credit delivery.

7) Provide capacity building of the SMEs who comprise most of the poor asset quality portfolio of the banking system through a revamped NBSSI or an SME Institute which will network with grant providers to provide technical assistance. Banks could refer such problem account operators to such an institute for evaluation and assistance.

RECOMMENDATIONS

The discussions above informed the group in their assessment of the adequacy or otherwise, of the recommendations in the draft FINSSP document, to achieve the policy objectives.

RECOMMENDATION 49:

The issue of bad loans and worsening loan quality should be dealt with through:

- Promotion of credit bureau and credit reference agency.

- Establishment of legal processes that expedite recovery of bad loans

- Effective monitoring and supervision of bank loan quality by Bank of Ghana. The group hoped the new banking bill will adequately deal with this.

- Restructuring of NBSSI as an SME Institute to provide capacity building for SMEs, and to promote a network of technical support agencies to assist it. This will improve risk and system's management capacity of SMEs so as not to pose problems of default in repaying bank loans.

RECOMMENDATION 50:

The group accepted this recommendation. However, a new recommendation was proposed (Recommendation 55) from the discussions (specifically from bullet points 1, 3 and 4 in the document) that follows this recommendation

RECOMMENDATION 51

Item (b) of this recommendation was amended to read as follows:

Banks should:

- Close accounts of customers who issue bad cheques for more than a set number of times in a given year.

- File caution notice to other banks about bad cheques drawers

- Government institutions should be the first to accept cheques

- Ultimately, banks should kick out issuers of bad cheques out of the banking system

- As a counter to the above recommendations, there should be penalty for firm refusal to accept cheques

RECOMMENDATION 52

As per the above deliberations, the group concluded that this recommendation is a critical element in contributing to achieving the set policy objectives.

RECOMMENDATION 53

After a thorough discussion of this recommendation, the group agreed that word "consolidation" should be replaced with "efficiency" for this recommendation to read:

"Regulators should encourage efficiency in the banking industry by requiring higher levels of capitalization and utilization of technology as a condition of license".

RECOMMENDATION 54

The group agreed that this recommendation should remain as it is.

RECOMMENDATION 55:

After careful deliberations, the group made this additional recommendation to deal with the need of a "Truth in Lending" law to cover:

- Procedures for investigating and processing consumers' complaints in relation to denial of credit and other banking services.
- Requirements for consumers to be given meaningful and consistent information about the cost of credit.
- Clear and conspicuous disclosure of all material terms of a loan before granting credit.

The group advises that this recommendation to be implemented in the phase III of FINSSP.

DISCUSSION AT THE PLENARY SESSION

The following are the comments, questions, and issues that came up during the plenary session.

1) *Comment*: The banking industry should rather build the capacity to deal with SMEs challenges, instead of SMEs building capacity to respond to the banking sectors.

   Response: Participants disagreed with this, maintaining that as per the recommendations of the group, an SME institute should rather be established to assist them to build their capacity to respond to the requirements of the banking industry. On the other hand, there is the need for appraisal systems of banks to refer SMEs especially, those with problem accounts to a central institute that would assist them to develop the necessary capacity to help them deal with the banks.

2) *Comment*: The group's recommendations did not cover money laundering, which is a key issue of the banking industry.

Response: The group considered this, but expressed the view that the new banking bill is responding to the money laundering problem. In addition BoG already has Know Your Customer (KYC) policy guidelines for the banking industry.

3) *Comment*: The group did not come out with a policy to ensure efficient intermediary role by the banking industry.

   Response: The universal banking initiative addresses this problem by increasing competition. Also the recommendation that Savings & Loans be part of the payment system is designed to support financial intermediation. These issues have been mentioned explicitly in the group's proceedings.

4) *Comment*: A key issue raised was to the effect that unless the government addressed the problem of macroeconomic stability, it will be difficult to solve the default risk problem of the banking industry, which also creates a large spread between borrowing and lending.

   Response: This is key and so should be taken note of by the Monetary Policy Committee.

5) *Comment:* Liquidity reserve ratio requirements encourage the banks to purchase treasury instruments. This makes them unable to lend to the private sector.

BACKGROUND

It was observed that the Objective #2 (to promote efficient savings mobilization) and the associated strategic initiatives provided an appropriate basis for the group's core mandate, i.e. reviewing and restating the recommendations in respect of the Insurance Industry's role in helping achieve desirable levels of mobilization of long-term savings.

The Group was of the view that the five (5) recommended strategic initiatives under objective #2 were all acceptable but not sufficient to facilitate the achievement of that objective. It was agreed that additional strategic initiatives were required to address the fact that life insurance today contributes as low as 10% of insurance premiums in the country. These additional initiatives are necessary because, unlike the other classes of insurance, it is life insurance that effectively accumulates and provides long-term funds for investment.

Other concerns were raised, such as:

- The non-inclusion of markets as one category of the public places that needs to be provided with insurance cover. During discussion it was revealed that due to the nature of the structures in most of the markets, these markets are not insurable. It was agreed that efforts should be made to recommend minimum building design requirements to make these structures insurable.

- The non-enforcement of the law requiring that all local risks be insured by locally registered insurance companies.

- Although Insurance Companies and institutions such as Eximguaranty and Export Finance have the mandate to bring out credit guarantee insurance product, they have made very little impact in the Export market. There is therefore the need for strong and effective insurance/credit guarantee products to support exporters as well as SMEs.

- The problem of the End of Service Benefit (ESB) as part of a comprehensive national retirement policy for workers ought to be recognized.

- Issues pertaining to the health insurance scheme must be addressed. It was suggested that the proposed national health insurance should have limited defined scope of just funding primary health care delivery and that anything outside that scope should come under the purview of the insurance companies.

RECOMMENDATION

Following from the above, the Group recommended the following additional initiatives;

1. NEW RECOMMENDATION

Define minimum criteria for qualifying all long-term savings products for retirement purposes. Incentives should be put in place to encourage people to subscribe to these qualified long-term savings products.

The Group was informed that a recommendation to this effect has been placed before Cabinet by a committee working on Long-Term Savings. It was therefore, agreed that whatever was being done should be made to tie in with what this Group is working on. A distinction must be made between the mobilization of long-term funds and the investment of such funds. The implication is that the management of the funds ought to be farmed out to professional fund managers approved by the SEC. The Securities and Exchange Commission should be made to regulate all those who would be investing the funds. This would relieve the NIC of the burden of combining two difficult but important functions of regulating fund mobilization and fund investment. There should be consistent penalties for early withdrawals from any of the retirement products as would be listed.

2. AMENDMENT TO EXISTING RECOMMENDATION (48)

All market structures should in future be designed according to minimum prescribed standards of construction to make them insurable.

We are thus, suggesting amendment to Recommendation 48 as follows: <u>Insurance on public facilities should include public liability insurance.</u>

3. NEW RECOMMENDATION

The law, which requires that the insurance of local risk with locally registered companies, should be strictly enforced.

This implies that all contracts awarded to foreign contractors and suppliers should be insured with locally registered insurance companies.

4. NEW RECOMMENDATION

Insurance Companies must be encouraged to work together with Eximguaranty and Export Finance to deliver credit guaranteed insurance products.

5. NEW RECOMMENDATION

A new regime of fully funded terminal benefit schemes should be developed to replace the current defined benefit ESB plans.

These will be supplementary to the SSNIT scheme and should qualify under the long- term savings proposals.

6. NEW RECOMMENDATION

Insurance companies should design micro insurance products that would be beneficial and affordable for SMEs and low-income individuals and groups, particularly, those in the informal sector.

7. NEW RECOMMENDATION

The National Health Insurance Scheme (NHIS) should provide benefit to cover primary health care. Private insurance schemes underwritten by insurance companies should be promoted to provide supplementary coverage over and above the benefits by the NHIS.

The National Insurance Commission (NIC) should provide the required regulatory oversight for these supplementary health insurance schemes.

SEQUENCING OF RECOMMENDATIONS

On the issue of whether all the recommendations could be achieved within the stipulated time frames, members were in agreement with the suggested timetable. It was, however, felt that the promulgation of laws providing tax incentives could be pushed to year 2004/2005 in view of the bureaucracy involved in achieving this.

RECOMMENDATIONS

EQUITY MARKET

1) Roles of the SEC and the Registrar General should be delineated. (Issue of SEC and Registrar General should be dealt with so that RG only deals with the filing of documents not review. Participants agreed this had to be tied in with the current review of the Companies' Code. This would require an extension of the mandate and Terms of reference given by the AG's Dept. in respect of the review of the Code to allow for inclusion of the issues raised).

2) Government should commit to using the GSE as the preferred option for the divestiture of state owned enterprises

3) Tax incentives for publicly listed companies should be strengthened and targeted at new listings

4) Venture capital should be hived off the NBFI regulation.

    i. Registration of the venture capital funds should be sufficient; if the VC becomes public then it would comply with SEC requirements for public companies.

    ii. Fund managers should however be licensed by SIL

    iii. Government and private sector venture capitalists should establish joint venture programs to boost private sector participation in disbursing government funds for seed and start-up capital. However, government should direct the sectors to which such funds should go to.

    iv. The participation of local institutional investors in venture capital funds should be promoted through tax incentives. This would require that IRS be apprised and sensitised to the intention of government in respect of the policy on venture capital funds to help them to understand the basis of the proposed tax incentives

THE MONEY MARKET

1) Discount houses should be phased out in two stages by (a) their borrowing privileges at the central bank should end of 2004 and (b) given the option of either converting into banks or merging their operations with existing banks. Licenses for discount houses should not be renewed beyond 2006.

2) To encourage the private sector short-term debt market, government borrowing should shift significantly to the medium and long-term market leaving room for the development of commercial bills such as BA, CPs and NCDs. Secondary reserve requirements should end for the banks.

BOND MARKET

The group recognised that the NBMC had done substantial work in this area. Nevertheless, the following recommendations were made:

1) Government economic management policies should seek to create credibility in the market place. In particular, the direction of the deficit and government debt should be fairly predictable to minimize investor uncertainty.

2) Benchmark government issues with longer maturities at fixed interest rates are needed to price corporate bonds appropriately

3) Primary market auction procedures in the conduct of public debt issuance program and central banks OMO should be more consistent and transparent with respect to Recommendation 13:

    a) maintained

    b) Amended to exclude the phrase 'well in advance in the fist sentence.

    c) Eliminated

    d) Maintained

    e) Amended to read "detailed auction results including OMO should be announced to the public"

    f) eliminated

4) Measures should be put in place to promote secondary market activity.

5) Rationalize conflicting aspects of the legal framework that are impediments to the growth of the bond market.

6) The enabling statutes for statutory bodies must be amended to clarify their corporate status as potential borrowers in the debt market.

7) Steps should be taken to bring local government units into the bond market.

The following **operational** recommendations were made:

1) A common trading screen should be operated by BOG for the government's securities market.

2) The following are likely to help improve liquidity:

   - Automation
   - Creating supply and demand
   - Divestiture
   - Regulation
   - Vigorous Marketing
   - A fast-track listing category that would ease the listing process and allow small companies to list

RISK MANAGEMENT.

Members understood that it was important to develop a market for risk management instruments. A definition of derivatives should be included in glossary. The group made comments on the recommendations as follows:

Recommendation 19-22 should be collapsed into one recommendation which should read as follows:

The SEC and Bank of Ghana should accommodate the introduction of new risk management instruments, including derivatives, with market and institutional capacity. As first steps,

(a) ***the definition of 'securities' under Section 142(1) of the Securities Industry Law and under the First Schedule of the Companies Code should be redefined to include risk management instrument; and***

(b) ***restrictions on the use of derivatives by unit trusts and mutual funds should be liberalized.***

Implementation: Phases I, II, III

MARKET INSTITUTIONS.

The group's comments on each recommendation was guided by how the recommendation satisfies the 3 objectives of the initiatives set out by FINSSP for market institutions, namely, the GSE should:

1) restructure into a more commercially oriented exchange

2) to update its rules and operating procedures to attract more trading

3) to become competitive within the ECOWAS region

On this basis, the following recommendations were made:

1) "The Ghana Stock Exchange should be encouraged to demutualize, restructure and reform to meet the challenges envisaged by FINSSP" This could be done either (a) at GSE council level (b) by MoF using its influence or (c) by SEC regulation

2) Remove restrictions on foreign participation on the GSE.

3) Any legal impediments restricting the GSE from forming strategic alliances with regional exchanges should be removed.

The following **operational** issues are also recommended:

1) GSE to review and update its listing, membership and other regulations to bring them up to date

2) Trading on the GSE to be automated. This should be a Phase 1 recommendation

3) BoG and the GSE should continue work on the implementation of the 2002 business plan of the Ghana Securities Depository and Settlement Company.

MARKET OPERATORS.

The group's comments on each recommendation was guided by how the recommendation satisfies the 3 objectives of the initiatives set out by FINSSP for market operators namely that the stockbrokerage industry should see:

1) Progressive deregulation of fixed commissions to increase competition

2) Promotion of industry consolidation to achieve greater economies of scale and scope, greater financial resources and better utilization of human resources

3) Promotion of a core group of well capitalized firms that would have the capacity to reach out into the ECOWAS region in accordance with the national vision

On this basis, the following recommendations were made:

1) SSNIT should be encouraged to diversify the management of its funds by placing out a proportion with external fund managers where appropriate

2) Government should promote private pension funds

3) Government should regulate private pension funds

The following **operational** issues were also recommended:

1) Encourage consolidation in the stockbrokerage industry

2) Stock brokerage commission should be liberalized

3) SEC should clarify the definition of investment advice

4) SEC and BOG should harmonize the regulation of market participants offering investment management services.

5) Investment guidelines for unit trusts and mutual funds should be liberalized to allow the adoption of the 'prudent person approach'

BACKGROUND

1) The NBFI law is relevant to the extent that it offers the following:

    - Prudential regulation
    - Consumer protection
    - Market integrity
    - Protection of the third party investor

2) A clarification of the definition of an NBFI vis a vis a bank was made. It became clear that the criteria for being licensed as a bank by BoG is as follows:

    i. Must be a deposit-taking institution, a lender or both, and

    ii. Must be part of the payment system

Any entity therefore which did not satisfy the above criteria is considered to be an NBFI. The following are the current NBFI institutions in Ghana categorized into deposit-taking and non-deposit-taking:

Deposit Taking

- Savings and Loans
- Credit Union

Non-deposit taking

- Finance Companies
- Mortgage Companies
- Discount Houses
- Hire Purchase Companies
- Leasing Companies

- Building Societies
- Venture Capital

The group deliberated extensively on the current challenges facing NBFIs and realized that challenges fell under two broad categories:

1) Regulatory bottlenecks, and
2) Unfavourable market environment

The group therefore made the following recommendations based on the aforementioned challenges

RECOMMENDATIONS

REGULATORY

1) Venture capital companies should not be regulated under the NBFI law. However managers of VCs should be licensed as investment advisors under SIL.

2) The NBFI law should be revised to provide specific legal subsections for regulating the different NBFI transactions/activities i.e. activities of Finance Companies, Leasing Companies, Mortgage Companies, Hire Purchase Companies, and Building Societies Discount Houses should be regulated by specific NBFI subsections such as the Finance Lease law, 1993, Home Mortgage Law, 1993, Mortgages Decree, 1972, Hire Purchase decree, 1974, and the Contracts Act, 1960. A revision of all these old laws should be undertaken.

3) NBFIs should be encouraged to self regulate under the broad supervision of BoG or the proposed Financial Services Authority

4) The NBFI area is new and requires significant study into the experiences of other countries. The nature of the business of the financial sector is dynamic and therefore care must be taken not to regulate it too rigidly. Ideally, regulation should not impede the development process.

MARKET ENVIRONMENT

1) Government should take steps to reduce the high yield on government paper to make it possible for NBFIs to structure realistic and attractive debt instruments as part of their working tools.

2) Incentives should be provided to NBFIs to assist them in their development e.g. (a)tax incentives can be used to encourage VCs, (b)solvency rules should be reviewed to give leasing and hire purchase companies greater ability to leverage their capital.

These recommendations are aimed at achieving the strategic initiatives of (a) improving the efficiency of the fund raising process and (b) broadening the range of financial instruments as envisaged by FINSSP

The following recommendations were made/adopted by the group:

1) In the medium to long term, Government should establish by statute an Apex body – the National Mortgage and Housing Board (NMHB) as a national instrument for achieving the goal of facilitating access to housing finance. Certain concessions would be needed from the BoG to ensure the success of NMHB. The details of such concessions should be worked out at the appropriate time in consultation with the housing finance industry.

2) As part of establishing the apex body (NMHB), a National Housing Fund should be set up to support low-income housing. The modalities should be worked out at the appropriate time.

3) Mortgage companies should be encouraged to develop by making the Housing Finance law applicable to all mortgage companies

4) A review of the Home Mortgage Finance should be made to enable the expeditious foreclosure on the property of defaulting mortgagors.

5) A study should be undertaken to ascertain the effectiveness of using tax-deductible interest payments as inducement a way of improving affordability of mortgages for potential home-owners

6) Government should study the possibility of providing some inducement for individuals to save towards deposits for mortgages through Home Ownership Saving plans, which would allow a tax-payer to save on pre-tax basis towards the acquisition of a home.

7) The draft National Housing Policy document (currently at the Ministry of Works and Housing) needs to be studied and, if possible, its implications integrated into this FINSSP document.

DISCUSSIONS AT THE PLENERY SESSIONS

1) There was a suggestion that the hire purchase law should be reviewed. In doing so, emphasis of the hire purchase decree should be on consumer protection rather that rigid regulation to make it less problematic for hire purchase institutions

2) There was extensive discussion about the S&L companies and other non-deposit taking institutions. A member wanted to know if the new banking bill

had made provision for such institutions to be licensed under a separate chapter under the banking law. It became clear that it would require

3) A participant drew attention to the fact that the groups recommendation (6) under housing finance was taken care of by the Long-term savings scheme

4) A question was asked by BOG representative on what the form of concessions recommended under (1) under Housing Finance:

   Answer: An example was given that bonds issued by the proposed Apex body (NMHB) for instance, could be included in the secondary reserves mandated by BoG.

5) A question was asked about the form the group's proposed National Housing Fund should take and whether it should be fashioned along the model of the GET Fund.

   Answer: The group tried not to go into operation/micro issues and therefore this would need to be thought through later

6) A question was raised on how the group would want to see regulation of the NBFI entities given their recommendation 2 under the NBFI section.

   Answer: It would be prudent to isolate certain entities from the broad regulation of NBFI and apply legal provisions of certain laws such as the hire purchase decree and the other laws indicated in Recommendation 2.

BACKGROUND

The concept of a development finance institution (DFI) arises out the need to provide mechanisms to facilitate economic development. The basic rationale of a DFI is that the state needs to channel funds to help private initiatives in various economic sectors because of:

- Unavailability of capital to these sectors
- The high-risk nature of projects to be funded, though these projects are desirable from society's point of view.

The public policy objectives that are inherent in role of DFIs include:

- Speeding up of economic growth
- Rapid industrialization
- Rural Development
- Support to industry
- Entrepreneurial development
- Housing

RECOMMENDATIONS

The previous six recommendations considered in Swedru have been consolidated into two recommendations. These are:

RECOMMENDATION 55

In order to build on past experiences, and to avoid repeating past mistakes, the new model DFI should:

1) Only be used for targeted interventions and should not be made to operate like commercial banks.

2) Be governed and regulated under special statutes instead of the banking law

3) Have a statutory mandate renewable every ten years, with a mid-term review to ensure that their mandate remains relevant.

4) Be a non-deposit taking institution.

Funding could be provided from the following sources, among others:

- Export Development Investment Fund
- Ghana Investment Fund
- Concessionary donor-contracted funds for on-lending, such as Japanese Non- Project Grants and CIDA Structural Adjustment Facility and Non-Project Guarantee Facilities
- Subscriptions by commercial banks
- Government guaranteed development bonds

RECOMMENDATION 56

The mandate of Eximguaranty Company and Export Finance Company should be reviewed with a view to merging *them into a single Eximguaranty and Finance Corporation.*

- The operations of EximGuaranty and Export Finance Company should be merged into a state-owned Export Credit and Guaranty Corporation, which will thereafter provide credit facilities for exporters, and also credit guarantees.
- The new institution will qualify as a DFI as defined in Recommendation 55 above

RECOMMENDATION 57 (DELETED)

This recommendation states "*Government should outsource all funds for on lending to the private through financial institutions using appropriate risk-sharing schemes"*.

This recommendation is no longer relevant since all government sponsored loan schemes such as EDIF can be passed through a DFI as now defined in Recommendation 55.

M I C R O F I N A N C E   G R O U P

BACKGROUND

During the discussion members observed that a key constraint in the development of microfinance is that of undercapitalization. Most microfinance institutions are undercapitalized. One reason for this situation is the limitation imposed on the level of ownership by individuals and corporate bodies. Members were of the view that the vision as articulated in objective 2 adequately addressed microfinance section of the FINSSP document.

ISSUES RAISED

In certain areas of the country especially the northern part of the country, mobilizing capital is very difficult. This situation is further aggravated by the restriction imposed by the central bank concerning the level of ownership by individuals and corporate bodies. There is a need therefore for the central bank to be flexible especially in these capital deprived areas to help solve the problem of low capitalization.

It came up in the discussion that government's short term interventions in the form of giving credit to selected groups at reduced interest rates through the rural banks does not help in the sustainability of these banks in the long run. This is because the recovery rates for these government loans are very low. Thus, there is a build up of bad debt in the books of the rural banks, which reduces their accessibility to credit. There is therefore a need for government to revisit its modus operandi for the disbursement of these funds.

RECOMMENDATIONS

Recommendation 63: The statement should be rephrased as follows: **There is a need to periodically address the ownership structure of Rural Banks to increase the commitment of owners to support the rural banks.**

The Bank of Ghana has the prerogative and the flexibility to bring about changes as may be deemed necessary for the smooth running of the rural banks and has been addressing the issue for now. <u>Members were of the opinion that the third and the fifth sentences in the</u>

FINSSP documents should be deleted. Representations by share size should be limited to boardroom. At AGMs voting should remain one shareholder one vote irrespective of share size in order to maintain the focus on the community ownership principle.

RECOMMENDATION 64

Members generally agreed with the recommendation. Capacity building should be undertaken at two levels - at the level of institutions themselves and the umbrella organizations.

NEW RECOMMENDATION

Enable the setting up of 2nd tier savings and loans companies with lower capital requirement to provide access to micro depositors mainly in the urban and per urban areas.

The present capital requirement of ¢15 billion has slowed down the growth of Savings & Loans companies, which originally were meant to provide access to financial services for the economically active poor and low-income groups. The 2nd tier Savings & Loans companies will not be part of the payment system. However, when they have accumulated enough funds to meet the requisite capital requirements, they may transform to 1st tier Savings & Loans companies.

NEW RECOMMENDATION

Develop capacity building programs for credit oriented NGOs towards data reporting.

The recommendation is to promote the idea of an apex body regulating activities of credit-oriented NGOs, focusing on reporting requirements of their microfinance activities; this would involve separating their non-financial services with a view to providing them with technical advise to ensure their viability and long term sustainability in the communities where they operate. Their viability could encourage wholesale/retail arrangements with the formal institutions enabling more credit to be made available to the informal sector operators who are presently deemed to be unbankable. The present financial continuum comprises of commercial banks, Savings & Loans companies, Credit Unions, Credit-Oriented NGOs and Susu Groups (including Rotating Savings Clubs ROSCAS). Bank of Ghana regulates the first two; the remainder is non-regulated. Strengthening the capacity of the unregulated groups will ensure the self-regulation of these groups in the long run.

NEW RECOMMENDATION

Credit-oriented NGOs to register (not regulated) with the Ministry of Finance & Economic Planning.

As at now all NGOs register with the Social Welfare Department as Welfare organizations. With the financial systems approach to microfinance, the microfinance operations of the NGOs are to be separated from the welfare activities to enable proper reporting and international best practice.

Recommendation 65 & 66: Members unanimously accepted these recommendations. However, members were of the opinion that the nature of the operations of credit unions makes it impossible to be integrated in the national payment system and so should be deleted from the last sentence of recommendation 65 of the FINSSP document.

NEW RECOMMENDATION

External funds, intended to bridge the credit gap and which are passed through Rural Microfinance Institutions (RMI) to reach special target groups must be given to RMIs to manage by applying their lending skills (instead of being directed) to lend so that these loans are recovered to ensure the sustainability of such interventions.

Interest rates should not be subsidized as they distort the RMIs operations and generally, the market. The interest rate subsidy should rather be given as grant (to buy capital goods or go into capacity building) for the target groups.

NEW RECOMMENDATION

Assist Ghana Microfinance Institutions Networks (GHAMFIN) develop national benchmarks and standards for the microfinance industry.

GHAMFIN comprises all the apex institutions involved in the delivery of microfinance services. Its role in bringing all the apex institutions together makes it easier for it to receive reports from the microfinance institutions and compile the benchmarks and standards for the industry. These will be published periodically for MFIs to compare their performance and will help in the self-regulation of the industry. In this way, GHAMFIN can become the central point for statistics and other information on the industry and can pass on the information to the NBFI wing of BOG for efficient supervision of the industry.